

# Iowa Legislative Fiscal Bureau

Dennis Prouty  
(515) 281-5279  
FAX 281-8451



State Capitol  
Des Moines, IA 50319  
September 20, 2002

## Iowa Priority Program

### ISSUE

This *Issue Review* provides an overview of the Iowa Priority Program, detailing how each component of the Program functions to achieve the Program goal of reducing prescription drug costs of Iowans eligible for Medicare.

### AFFECTED AGENCIES

Department of Public Health

### BACKGROUND

According to data compiled by PRIME Institute for Families USA, in calendar 2000, the projected average prescription drug expenditure per senior citizen (age 65+) was approximately \$1,200 annually. The data assumes a projected increase in expenditures per senior of approximately 11.7% per year from 2000 to 2005. At an 11.7% increase per year, the projected expenditure per senior for calendar year 2002 is approximately \$1,500. The Department of Public Health estimates there are 274,000 Iowa seniors who do not have an insured drug benefit and are not enrolled in Medicaid. For these people, the expense would be all out-of-pocket.

In the summer of 2000, the Health Consumer Advisory Council recommended that a project be developed to reduce the high cost of prescription drugs for Iowa seniors. Governor Vilsack then appointed a work group of seniors, pharmacists, and physicians to study the issue to determine what could be done. The work group was expanded to include representatives of the pharmaceutical industry. A federal grant of \$1.5 million dollars was set aside for the Iowa Department of Public Health in the FFY 2000 Labor, Health and Human Services Appropriations Act, "for the establishment and operation of a mercantile prescription drug purchasing cooperative or non-profit corporation demonstration". The Iowa Prescription Drug Corporation, a not-for-profit 501C.3, was formed and the Corporation and the Iowa Department of Public Health entered into a grant agreement. The Corporation is governed by an eight member board of directors. The Corporation developed the Iowa Priority Program and hired an executive director, who then recruited four other support people to help carry out the Program. The goal of the Iowa Priority Program is to reduce the high cost Iowa seniors were paying for prescription drugs by negotiating discounts with pharmaceutical companies so seniors can purchase medications at a discount without the entire burden being shifted to

I  
S  
S  
U  
E  
  
R  
E  
V  
I  
E  
W

the pharmacy and by promoting the use of less costly generic drugs over the more expensive brand name when possible.

### **CURRENT SITUATION**

The Iowa Priority Program was formally launched in January 2002. At the time the Program was implemented, the Corporation, after soliciting a request for proposal (RFP), signed a letter of intent with a pharmacy benefits manager (PBM) based in Kansas City named Argus Health Systems, Inc. Argus was to be responsible for:

- Entering into agreements with pharmaceutical manufacturers and negotiating discounts/rebates
- Providing electronic claims adjudication
- Providing call center services
- Providing pharmacy network contracting

Argus contracted Iowa pharmacies to provide Medicare-eligible Iowans discounts on their prescription drugs. The pharmacy agreement requires the participating pharmacies to submit their usual and customary (retail) charge. The claim processing system then compares the usual and customary charge to the dispensing fee table contained in the network agreement. The agreement requires the pharmacist to charge his usual and customary charge or the allowable amount on the dispensing fee table, whichever is less. With these contracts in place, the corporation was ready to start enrolling Iowans in the Program.

### **Enrollees**

The target population for Iowa Priority is Medicare-eligible Iowans that have no insured drug benefit and are not enrolled in Medicaid. This amounts to approximately 274,000 Iowans. Eligible Iowans must complete an enrollment form and provide copies of their Medicare health insurance card. Each enrollee pays an annual membership fee of \$20 and receives a membership card, and a coupon worth \$25 for one free Brown Bag Assessment. The Brown Bag Assessment is a review of all prescription and over-the-counter medications, and herbal remedies an enrollee takes.

Currently, there are 24,106 enrollees in Iowa Priority. **Attachment A** shows the projected enrollment versus the actual enrollment in the Program through August 2, 2002. Actual enrollment since February 2002 has fallen well below the projected level. The Iowa Prescription Drug Corporation attributes this to marketing efforts. An intense statewide marketing effort done in the early phases of the Iowa Priority Program lead to enrollment numbers being much greater than projected for January 2002. As marketing tapered off, so too did enrollment. Another factor that may have led to lower than expected enrollment were complaints from enrollees who joined the Program in January 2002 and claimed they were not receiving a significant discount.

### **Iowa Retail Pharmacies**

Of approximately 800 Iowa retail pharmacies, 748 (93.5%) have joined Iowa Priority. The role of the pharmacies is to perform Brown Bag Assessments, offer pharmacy discounts, and offer the less expensive, generic drug, when possible to help Medicare eligible Iowans save on prescription costs.

Upon joining Iowa Priority, enrollees receive a \$25 coupon for a free Brown Bag Assessment. Brown Bag Assessments are a review of all prescription and over the counter medications as well as herbal remedies an enrollee takes. The Assessment is done by either the enrollee's pharmacist or physician. The goal is to prevent adverse reactions, duplications, and to lower prescription

medication costs. The pharmacist or physician is reimbursed \$25 per Brown Bag Assessment by Iowa Priority through Argus. As of July 17, 2002, 3,675 enrollees had taken advantage of the free Brown Bag Assessments. This indicates that approximately 15% of enrollees have received a Brown Bag Assessment while 85% have not. Over 95% of the Brown Bag Assessments performed have been done by Iowa pharmacists.

Discounts offered are based on the Argus Network Agreement – 1, a confidential agreement between Argus and Iowa pharmacies. All Iowa Priority claims are based on this Agreement. The pharmacy agreement requires the participating pharmacies to submit their usual and customary (retail) charge. The claim processing system then compares the usual and customary charge to the dispensing fee table. The pharmacist is to charge the member his usual and customary charge or the allowable amount as calculated on the dispensing fee table, whichever is less.

### **Pharmaceutical Manufacturers**

Pharmaceutical manufacturers were expected to play a large role in providing discounts to enrollees in Iowa Priority. The goal of the Program was to establish purchasing power by creating a large membership in the Program. Once this was achieved, the Program would then be able to sign contracts with pharmaceutical manufacturers, who would then offer significant discounts to enrollees. However, during the first three months of the Program, no manufacturers had signed contracts. Therefore, the only discount enrollees were receiving were the discounts offered by the pharmacies. On March 21, 2002, two manufacturers, Merck, and Bristol Meyers Squibb, signed contracts with Argus. On May 11, 2002, Schering-Plough Corporation signed a contract. Savings for enrollees in the Program can come from either pharmaceutical manufacturer's discounts, and in some instances from Iowa pharmacies, or both. If an enrollee's physician prescribes a preferred drug made by one of these three manufacturers, the enrollee will receive a discount at the pharmacy. The pharmacy is then reimbursed by the manufacturer through Argus for the manufacturer's discount.

### **Pharmacy Benefits Manager**

Argus Health Systems, Inc. signed a letter of intent with the Iowa Priority Program in January 2002. Argus plays many roles in the Program. Argus has acted as a call center for Iowans interested in the Program. When Iowans contact Iowa Priority, if the phone lines are busy, the caller may be transferred to Argus who will then help to provide information about the Program. Another role Argus plays involves the contracting of Iowa pharmacies. The contract specifies the fee schedule under which pharmacies submit claims. Argus has also been responsible for contracting with pharmaceutical manufacturers and for providing electronic claims adjudication. Enrollees in the Program present their Iowa Priority card to the pharmacy when getting a prescription filled. The Pharmacy then electronically submits the claim and the computer applies the discount according to the network agreement and the agreement Argus has with the Pharmaceutical manufacturers. All claims are settled through Argus. Iowa Priority pays Argus a claims processing services fee. The transaction fee was established in a confidential contract. The fee decreases as the amount of claims increases. And in the case of reimbursement for Brown Bag Assessments for new enrollees, Iowa Priority pays Argus \$25 per Brown Bag Assessment claim, and Argus then reimburses the pharmacy or the physician that performed the assessment.

## PROGRAM CONCERNS

### **Enrollee Issue**

When the Program first began in January enrollees in the Program began to voice concerns that they were not receiving any discounts. While the Corporation is able to provide examples of savings produced by the Program, many enrollees are claiming they are not seeing a significant discount.

### **Pharmacy Issue**

Originally when Iowa Priority was started, the Iowa Prescription Drug Corporation and the pharmacists agreed to Argus Network Agreement – 13. This original contract was drawn up by Argus and signed by pharmacists. The dispensing fee table allowed the pharmacists to charge the enrollee a \$4.50 dispensing fee for brand name, non-preferred drugs and a \$6.50 dispensing fee for brand name, preferred drugs and generic drugs. Recently, Argus Network Agreement – 13 was terminated and replaced with a standard network agreement developed by Argus titled Argus Network Agreement – 1. In the new network agreement, the dispensing fee table has been changed. Now, instead of the pharmacist being able to charge the enrollee a dispensing fee of \$4.50 for a brand name, non-preferred drug, the pharmacist may only charge \$2.50 for all brand name drugs and \$3.25 for generic drugs. This new network agreement reduces the dispensing fee by 44.4% for brand named drugs and by 50.0% for generic drugs. Several pharmacists have voiced the concern that it was unfair for the corporation to renege on the original agreement. Some pharmacists now contend that the new dispensing fee when combined with the discount given to enrollees makes the cost of doing business too high.

## BUDGET IMPACT

The Department of Public Health received a grant of \$1.5 million set aside in the Labor, Health and Human Services FFY 2000 Appropriations Act. This money was passed through to the Iowa Prescription Drug Corporation. This federal grant was to provide seed money for the initial start-up of Iowa Priority with the idea that once the Program was up and running, the corporation would be self-sufficient. A second grant of \$1.5 million was awarded to the Iowa Department of Public Health to provide, "...for the continuation of a prescription drug cooperative demonstration." In future years, the Corporation will need to identify additional revenue from new grants, membership fees, and other methods to support the daily operations of the Program. **Attachment B** details the expenditure of the first federal grant. The **Attachment** does not indicate the number of employees (5 employees) budgeted for nor does it include revenue generated from the \$20 annual membership fee (\$482,120) or any other sources of funding the Program may have available. Other sources of funding obtained by the Iowa Prescription Drug Corporation are considered confidential information. The first federal grant was effective July 18, 2001, to September 8, 2002. The Department of Public Health has requested that all unobligated funds not spent during the contract period be awarded to the Iowa Priority Program for expenditure during the next grant period.

## SOURCES

Iowa Prescription Drug Corporation  
Iowa Department of Public Health

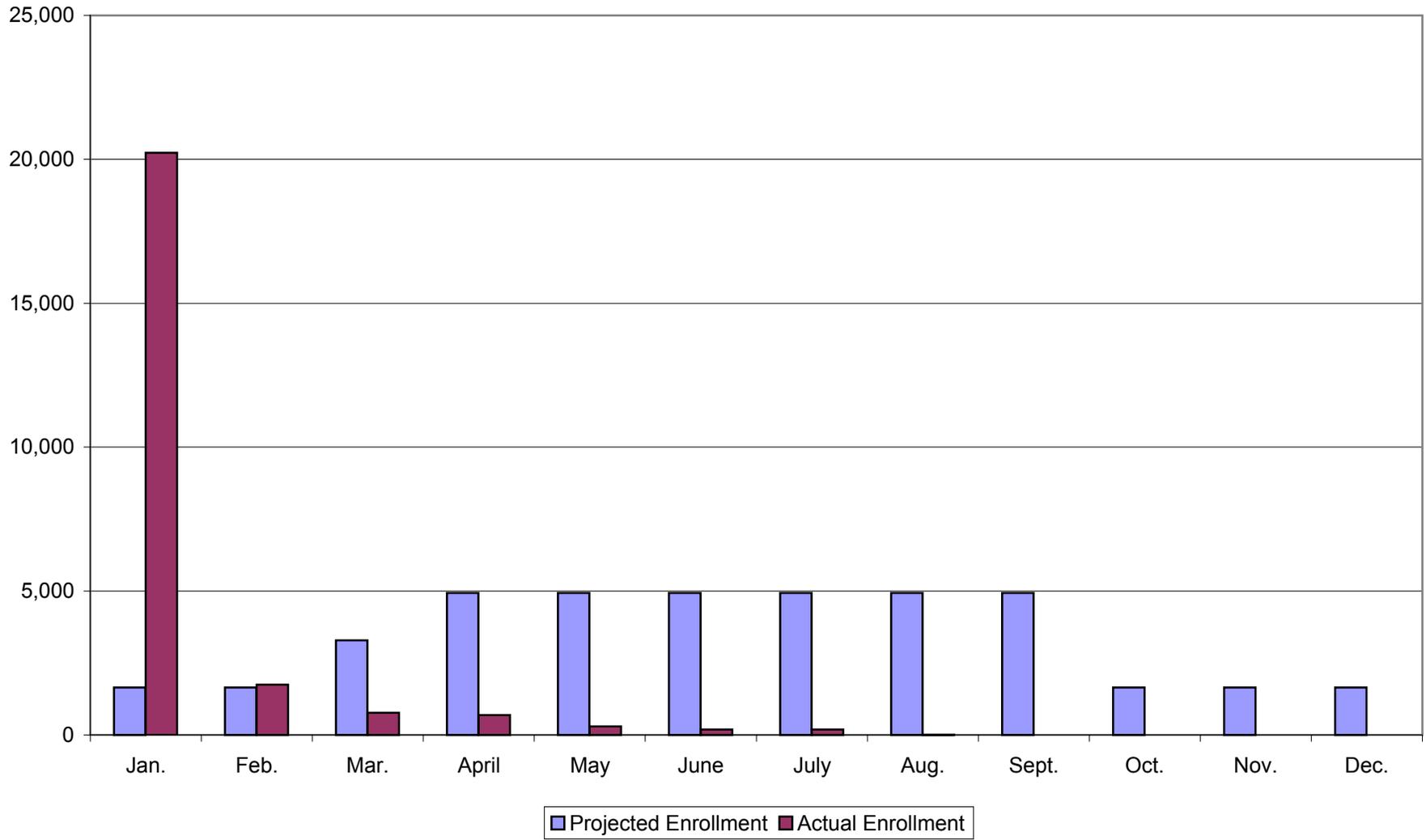
STAFF CONTACT: Russell Trimble (Ext. 14613)

Iowa Priority Program

<http://staffweb.legis.state.ia.us/lfb/ireview/irveiw.htm>

LFB: IRRIT000.Doc/09/20/02/4:55 pm

Iowa Priority Prescription Savings Program -- Enrollment  
Thru August 2, 2002



# ATTACHMENT B

Iowa Prescription Drug Corporation  
Iowa Department of Public Health Budget (1st federal grant)  
July 18, 2001 - September 8, 2002

	<u>Proposed Budget</u>	<u>*Actual Expenditures</u>
Bank Services Fee	\$ 2,030	\$ 1,813
Brown Bag Assessment	130,000	72,700
Conference Expense	1,500	4,233
Drug Utilization Review	1,000	
Employee Benefits	10,500	8,749
Equipment Purchase	50,000	47,597
Equipment Rental	1,500	1,633
Iowa Dept. of Public Health	55,176	55,176
Insurance Expense	1,279	1,659
Meals & Other Expense	1,500	499
Market Research	20,000	20,000
Occupancy (Lease)	14,000	10,616
P & T Committee	4,000	
Payroll Processing	14,000	10,244
Payroll Tax	25,650	18,606
PBM Transaction Fees	132,993	65,106
Postage/Shipping	55,500	39,416
Printing	25,000	6,002
Professional Fees	15,000	24,952
Publications	100	
Salary	285,000	218,266
Start-Up Cost	1,000	
Supplies	10,500	8,214
Telephone	32,500	22,931
Temporary Employees	17,000	7,012
Travel	12,000	9,804
Marketing	475,000	262,223
Other Expense	10,000	5,452
Prepaid	1,672	
Audit/Accounting	16,000	
Call Center	25,000	10,000
PBM Connectivity	3,600	3,000
Rebate Expense		
Legal	50,000	
<b>Total</b>	<b><u>\$ 1,500,000</u></b>	<b><u>\$ 935,903</u></b>

\* Actual expenditures reflect expenditures made through June 30, 2002.

Note: The budget does not include expenditure of the revenue generated from the \$20 annual membership fee or any other sources of funding the Program may have available. Other sources of funding obtained by the Iowa Prescription Drug Corporation are considered confidential information. The Corporation has collected approximately \$482,120 in membership fees.

Note: The budget does not indicate the number of employees budgeted. The Corporation is budgeted for 5 employees.